

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF

**BLACK HILLS NEBRASKA GAS, LLC
D/B/A BLACK HILLS ENERGY,
RAPID CITY, SOUTH DAKOTA**

SEEKING APPROVAL OF A GENERAL RATE INCREASE

Application No. NG-109

June 1, 2020



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EXECUTIVE SUMMARY

A. Applicant

Black Hills Nebraska Gas, LLC, d/b/a Black Hills Energy (“BH Nebraska Gas” or “Company”), a “jurisdictional utility” under Section 66-1802 (10) of the State Natural Gas Regulation Act (“Act”), provides retail natural gas distribution service to approximately 297,000 customers located in or around 319 communities Nebraska¹. With this Rate Review Application, BH Nebraska Gas is seeking approval by the Nebraska Public Service Commission (“Commission”) of a general rate increase under the Act for its Nebraska jurisdictional customers. *Neb. Rev. Stat. §§ 66-1801 et. seq.*

Black Hills Nebraska Gas, LLC is the combination of Black Hills/Nebraska Gas Utility Company, LLC (“BH Gas Utility” formerly Aquila) and Black Hills Gas Distribution, LLC (“BH Gas Distribution” formerly Source Gas) and operates under tariffs effective January 1, 2020 pursuant to approval of the Commission in Commission Application No. NG - 100.²

The BH Nebraska Gas service area is divided into five rate areas: (1) Rate Area One represents towns adjacent to the Omaha Metropolitan area, (2) Rate Area Two represents the City of Lincoln and nearby communities, (3) Rate Area Three represents the remaining 94 communities in the former BH Gas Utility service territory; (4) Rate Area Four represents non-jurisdictional transportation customers served under the High Volume Contracts or Interruptible Customers, and (5) Rate Area Five represents all of the former BH Gas Distribution communities. A copy of the existing rate areas included within the Tariff of BH Nebraska Gas.

B. Rate Review Application Summary

BH Gas Utility has not had a general rate increase under Neb. Rev. Stat. § 66-1838 in Nebraska since 2009.³ BH Gas Distribution’s last general rate under Neb. Rev. Stat. § 66-1838 was in 2011.⁴ This Rate Review Application is the first general rate review for the consolidated BH Nebraska Gas. Thus, over the past decade, BH Gas Utility and BH Gas Distribution preserved existing base tariff rates by controlling costs and increasing revenues by investing in infrastructure improvements needed to maintain the safety and reliability of BH Nebraska Gas’ Nebraska gas distribution system. The Commission’s approval of Pipeline Replacement Charges under *Neb. Rev. Stats. §§ 66-1864 et seq.* and the BH Gas Distribution System Safety Infrastructure Rider (“SSIR”) mechanism helped BH Nebraska Gas delay a general rate review.

¹ The jurisdictional customer count is approximately 288,000 and non-jurisdictional customer count is approximately 9,200.

² *In Re the Joint Application of Black Hills Gas Distribution, LLC and Black Hills/Nebraska Gas Utility Company, LLC and Black Hills Nebraska Gas, LLC for a Commission Decision Approving Internal Transfers, Consolidating the Nebraska Tariffs, Assets, Liabilities, and Operations of Black Hills Gas Distribution, LLC and Black Hills/Nebraska Gas Utility Company, LLC and to rename the consolidated entity Black Hills Nebraska Gas, LLC, Application No. NG-100.*

³ Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy’s rate review proceeded under Commission Application No. NG–0061.

⁴ SourceGas Distribution, LLC’s rate review proceeded under Commission Application No. NG–0067.

The primary reasons or drivers determined by BH Nebraska Gas for filing a Rate Review Application seeking a rate review are as follows:

1. Capital Infrastructure Project Investment Recovery

BH Gas Utility and BH Gas Distribution each made significant capital investment in their gas distribution system infrastructure since the last Rate Review Applications for either BH Gas Utility or BH Gas Distribution (“Capital Infrastructure Projects”). In fact, BH Nebraska Gas has increased its rate base by approximately \$322 million since the last rate review proceedings for BH Gas Utility and BH Gas Distribution. Those Capital Infrastructure Projects investments were made to improve the respective gas distribution systems of BH Gas Utility or BH Gas Distribution. The combined rate base of BH Gas Utility and BH Gas Distribution at the end of the Base Year (i.e., 12/31/2019) is approximately \$526 million.

- a. Rolled-in Capital Investment.** A significant amount of the Capital Infrastructure Projects investment was made by either BH Gas Utility or BH Gas Distribution in system safety infrastructure (i.e., “Integrity” projects). That investment has been recovered through either a Pipeline Replacement Charge or an SSIR Charge.

On the other hand, significant investment in other Capital Infrastructure Projects (i.e., Growth, Reliability, or General Plant projects) has not yet been incorporated into tariff rates by BH Gas Utility or BH Gas Distribution.

All Capital Infrastructure Projects investments will be included (i.e., rolled into Rate Base) in tariff rates through this Rate Review Application. The Rolled-in Capital Infrastructure investment is included in this Rate Review Application as Exhibit No. MCC-2, Statement D and Schedules D-1, D-2, and D-3 attached to the testimony of Mr. Clevinger. See also Statement M.

- b. 2020 Capital Additions Investment.** BH Nebraska Gas will invest approximately \$102 million in Capital Additions during 2020. The total state rate base of BH Gas Utility will increase to \$586 million by the end of this rate review proceeding. BH Gas Utility and BH Gas Distribution invested in numerous Growth, Integrity, Reliability, and General Plant Capital Investment Projects. The 2020 Capital Additions are included in this Rate Review Application as Exhibit No. KMJ-4 attached to the testimony of Mr. Jarosz.
- c. 2021 SSIR Capital Investment.** In 2021, BH Nebraska Gas proposes to invest \$51 million in SSIR projects. The Application for the 2021 SSIR projects is included in this Rate Review Application as Exhibit No. JLB-5 attached to the testimony of Mr. Bennett.
- d. Five-Year Plan Capital Investment.** The Company plans to invest an additional \$455 million (i.e. approximately \$91 million average per/year) on Capital Infrastructure Projects over the next five years in BH Nebraska Gas. BH Nebraska Gas will spend approximately \$50 million of the \$91 million per year on programmatic System Safety Integrity Rider (“SSIR”) projects.

The most important drivers to this Rate Review Application for BH Nebraska Gas are:

- (a) Commission approval of the recovery of previously unrecovered gas system investment; and
- (b) Commission approval of the Company's proposed rate mechanisms to improve the safety and reliability of its gas distribution system.

2. Pipeline Replacement Charge Renewal, SSIR Renewal, Extension, and other SSIR Modifications

The Pipeline Replacement Charge and SSIR mechanisms are designed to (a) improve customer safety, (b) drive collaboration between the Commission, the Public Advocate and the Company, and (c) reduce regulatory lag. Recovery of required capital investment through a Pipeline Replacement Charge or SSIR Charge extends the time between Rate Review Applications.

Accordingly, another driver to this rate review proceeding is (a) the renewal of the system safety mechanisms (i.e., Pipeline Replacement Charge and SSIR Charge), (b) extension of the SSIR mechanism to all Rate Areas, (c) modification of the SSIR's definition of eligible projects, categories, and criteria, (d) a change in the SSIR Surveillance Reports, and (e) modification of the SSIR mechanism to include recovery of Data Integrity Improvement Program ("DIIP") costs through the SSIR Charge.

BH Nebraska Gas proposes that future investment in system integrity projects be approved and recovered similar to the established SSIR mechanism process used currently by BH Gas Distribution.⁵ BH Nebraska Gas also seeks to modify the current definition of eligible projects, SSIR Criteria and SSIR Categories to also include Reliability projects and DIIP costs through the SSIR Charge. BH Nebraska Gas plans to continue making significant investment into the safety, resiliency, and reliability of its gas distribution system in Nebraska.

3. Public Power Competition and High Efficiency Appliance Tool ("HEAT") Tariff

BH Nebraska Gas faces constant and seemingly increased competition from public power districts in Nebraska. As demonstrated in the testimony of Dr. Rosenbaum, Mr. Frost, and Mr. Sullivan, competition from Nebraska's publicly owned power districts poses a significant threat to the operations of BH Nebraska Gas. Those competitive challenges come primarily in the form of low winter rates and electric appliance rebates.

Other competitive advantages for power districts come in the form of governmental protections, governmental immunities, lower tax burdens, different regulatory structures, and exclusive service areas.

⁵ The SSIR mechanism is in addition to the Pipeline Replacement Charge authorized by Neb. Rev. Stats. §§ 66-1864 through 66-1867.

BH Nebraska Gas needs to meet competition from Nebraska power districts in order to level the playing field and to provide its customers with valuable energy options. To that end, another driver of this rate review proceeding is that BH Nebraska gas proposes to (a) adopt a rate design that will fairly compete with the Nebraska power districts, and (b) continue the High Efficiency Appliance Tool program that currently exists in BH Nebraska Gas Rate Area Five.

Based on the research conducted by Dr. Rosenbaum, BH Nebraska Gas further proposes to expand the HEAT Program to BH Nebraska Gas Rate Areas One, Two, and Three as well.

4. **Revenue Deficiency**

As a result of consolidation of BH Gas Utility and BH Gas Distribution, BH Nebraska Gas is experiencing a revenue deficiency of \$17,296,140 that will be addressed in this rate review proceeding. The Base Year for this Rate Review Application is January 1, 2019 through December 31, 2019. The Test Year adjusts the Base Year for known and measurable changes, as well as applying normalization adjustments, as required by the Act, and an annualized adjustment to correct for out-of-period billing entries. The Company is proposing to include in rate base capital projects that went into service after the end of the Base Year and through the end of 2020.

Revenue Deficiency	Capital Structure	ROE	Cost of Debt	Weighted Cost of Capital
\$17.3 million	50% Equity/50% Debt	10%	4.11%	7.06%

5. **Statewide Consolidated Rates**

This Rate Review Application covers BH Nebraska Gas Rate Areas One, Two, Three (former BH Gas Utility rate areas), and Five (former BH Gas Distribution rate area).⁶ BH Nebraska Gas' Nebraska customers are served by common interstate natural gas pipeline systems.⁷

BH Nebraska Gas proposes uniform base rates for each customer class within the BH Nebraska Gas rate areas. As part of the statewide rate consolidation, BH Nebraska Gas proposes to either (a) raise the customer charges and establish block rates (a/k/a “Block Rate” rate design) or (b) increase its customer charge to cover all of its fixed costs (a/k/a “Straight-Fixed-Variable” rate design).

⁶ Rate Area 4 is a designation of the Agricultural and High Volume non-jurisdictional transportation customers whose service is provided pursuant to Neb. Rev. Stat. § 66-1810. The rates, terms, and conditions of service for customers served under Rate Area 4 non-jurisdictional transportation customers are not subject to this filing other than allocation of costs between regulated and non-regulated customers. *See Tariff Sheet Nos. 20-27* for more detail regarding BH Nebraska Gas rate areas.

⁷ Northern Natural Gas Company (“NNG”) and Tallgrass Interstate Gas Transmission (“TIGT”) are primary interstate pipelines delivering interstate natural gas supplies to Black Hills Energy and its customers in Nebraska.

As explained in the testimony of Mr. Sullivan, the change in rate design is necessary to compete effectively with public power districts in Nebraska.

Although there is a difference in gas purchasing between Rate Areas One, Two, and Three (i.e., former BH Gas Utility Gas Cost Reconciliation mechanism) vs. Rate Area 5 (former BH Gas Distribution's Choice Gas Program), BH Nebraska Gas incurs similar costs to serve its gas distribution customers in BH Nebraska Gas Rate Areas One, Two, Three, and Five.

Therefore, subject to the Commission's approval of the general rate increase requested in this Rate Review Application, BH Nebraska Gas revises its effective tariff rate schedules in accordance with the Act so that BH Nebraska Gas' approved base rates for natural gas service will be applied equally within each of the jurisdictional rate areas. The proposed rate design is set forth below.

BH Nebraska Gas has designed its proposed rates to accomplish the following results: (1) standardization of rates between all jurisdictional rate areas; (2) simplicity; (3) fair apportionment of costs among various customer sizes; (4) an opportunity for BH Nebraska Gas to set rates which are reflective of its current cost structure and business conditions; (5) an opportunity to add stability to BH Nebraska Gas' rate structure; and (6) an opportunity to allow BH Nebraska Gas to meet competition from other energy providers.

Specifically, BH Nebraska Gas proposes the following rate design:

BH Nebraska Gas Recommended Rate Design
(Block Rates)

	BH Gas Utility Current	BH Gas Distribution Current	BH Nebraska Gas Proposed
Residential Customer Charge	\$13.50 per Month	\$14.70 per Month	\$15.45 per Month
Commercial Customer Charge	\$18.50 per Month	\$22.75 per Month	\$31.10 per Month
Large Commercial Customer Charge	NA	\$56.15 per Month	N/A
Residential Distribution Charge Tier 1	\$.19500/Therm	\$.04675/Therm First 20 Therms	\$.59960/Therm First 20 Therms
Residential Distribution Charge Tier 2	N/A	\$.1338/Therm Over 20 Therms	\$.15000/Therm Over 20 Therms

Small Commercial Distribution Charge Tier 1	\$.17245/Therm	\$.4675/Therm First 40 Therms	\$.59960 /Therm First 40 Therms
Small Commercial Distribution Charge Tier 2	N/A	\$.1338 Therms Over 40 Therms	\$.1500/Therm Over 40 Therms
Large Commercial Distribution Charge Tier 1	N/A	\$.4675/Therm First 80 Therms	N/A
Large Commercial Distribution Charge Tier 2	N/A	\$.4675/Therm Over 80 Therms	N/A

BH Nebraska Gas Alternate Rate Design
(Straight Fixed Variable)

	Alternate Customer Charge	Alternate Volumetric Charge
Residential	\$22.81 per Month	\$.1500/Therm
Commercial	\$43.65 per Month	\$.1500/Therm

Average Residential Customer Bill Impacts

BH Gas Utility Residential Winter	BH Gas Distribution Residential Winter	BH Gas Utility Residential Summer	BH Gas Distribution Residential Summer
\$5.61/mo. increase	\$.66/mo. increase	9.26/mo. increase	\$0.65/mo. decrease
7%/mo. Higher	1% Higher	33%/mo. Higher	2% Lower

Average Small Commercial Customer Bill Impacts

BH Gas Utility Small Commercial Winter	BH Gas Distribution Small Commercial Winter	BH Gas Utility Small Commercial Summer	BH Gas Distribution Small Commercial Summer
\$15.89/mo. increase	\$14.21/mo. increase	25.56/mo. increase	\$7.23/mo. increase
4%/mo. Higher	4% Higher	23%/mo. Higher	6% Higher

Average Large Commercial Customer Bill Impacts

BH Gas Utility Large Commercial Winter	BH Gas Distribution Large Commercial Winter	BH Gas Utility Large Commercial Summer	BH Gas Distribution Large Commercial Summer
\$(33.37)/mo. decrease	\$(42.77)/mo. decrease	\$8.95/mo. increase	\$(73.31)/mo. decrease
2%/mo. Lower	3% Lower	2%/mo. Higher	12% Lower

6. Covid-19 Pandemic

The global Covid-19 Pandemic (“Pandemic”) caused numerous devastating impacts to the health and well-being of people throughout the world. The public health and economy of Nebraska was also impacted significantly by this Pandemic. BH Nebraska Gas provides energy within 319 communities in Nebraska and is considered an essential service during the Pandemic.

BH Nebraska Gas is sensitive to the health, unemployment and other impacts caused by the recent pandemic. The Pandemic had several impacts on the customer safety and service provided by the Company. One of the many actions that BH Nebraska Gas took in response to managing its business operations during this Pandemic was to prudently balance the impact on customers as a result of filing this Rate Review Application with the financial stability of BH Nebraska Gas. Mr. Jarosz provides testimony on actions that the Company undertook in the interest of its customer safety, employee safety, and to help customers with financial impacts resulting from the Pandemic.

7. Other Traditional Rate Review Issues

In addition to the primary rate review drivers identified above, BH Nebraska Gas provides testimony and evidence in support of its Rate Review Application, tariffs, and other items that are within a general rate review. For example, as supported by the Direct Testimony of Mr. Frost, BH Nebraska Gas proposes tariff changes to establish uniform fees or charges for diversion of gas fees, late payment fees, connect, reconnect, credit card processing fees, and NSF. Those fees and charges are not currently standardized. Mr. Clevinger provides the Revenue Requirement Study used to determine the revenue deficiency in this case. Mr. Sullivan provides the Cost Allocation Manual currently used by BHSC for allocating costs to BH Nebraska Gas, and for designing rates. Mr. Klapperich discusses tax methodologies applied in the Rate Review

Application. The areas of testimony for each witness is summarized in the table of witnesses below.

C. Gas Supply and Choice Gas Programs

BH Nebraska Gas does not propose to change its Choice Gas Program for Rate Area Five (former BH Gas Distribution) customers where Rate Area Five customers choose their natural gas commodity supplier. In addition, other than moving “Gas In Storage” costs into the Gas Cost Adjustment mechanism as discussed in the testimony of Mr. Bennett, BH Nebraska Gas does not propose changes to the Gas Cost Adjustment (“GCA”) mechanism used in its Rate Areas One, Two, and Three (former BH Gas Utility) where Residential and Commercial Sales customers in those Rate Areas are provided natural gas supply purchased by BH Nebraska Gas. Any significant changes to either the Choice Gas Program or the GCA (i.e., other than proposed in this Rate Review Application) will be addressed in a separate Commission proceeding.

D. Compliance with Prior Orders

In preparing this Rate Review Application, BH Nebraska Gas reviewed several prior Orders of the Commission wherein the Commission ordered BH Nebraska Gas to address a particular issue in this proceeding.

For example, BH Nebraska gas includes a Transition Report (“Synergies Savings”) related to the SourceGas Distribution acquisition in Commission Application No. NG-084. BH Nebraska Gas addresses its proposal to include in its costs unrecovered prudently incurred BH Nebraska Gas Farm Tap Replacement Program costs justified in Commission Application No. NG-0090.2. BH Nebraska Gas discusses the ALLO Project costs included in a regulatory accounting order and deferred to this Rate Review Application for recovery of those costs through a surcharge set forth in Commission Application No. NG-0093.

BH Nebraska Gas also addresses Accumulated Deferred Taxes that were deferred to this rate proceeding under the Company’s Tax Cut and Jobs Act filing in Commission Application No. NG-095.2. BH Nebraska Gas addresses the issues acknowledged in its legal entity and tariff consolidation proceeding in Commission Application No. NG-100. BH Nebraska Gas also reviewed the prior rate review proceedings of BH Nebraska Gas in Application No. NG-0061 (2009) and SourceGas in Application No. NG-0067 (2012) to ensure full compliance with those or other Commission orders.

E. Interim Rates

As detailed in the testimony of Mr. Amdor, BH Nebraska Gas will implement interim rates, subject to refund, commencing on September 1, 2020. However, the Company will consider shielding customers from the impacts of the rate increase during the pendency of this case if the impacts of the Covid-19 Pandemic continue to be severe, on the majority of BH Nebraska Gas customers. To that end, BH Nebraska hereby requests Commission approval to, in the Company’s sole discretion, elect to defer collection of the incremental increase in revenues it could lawfully collect during the interim rate period until the end of the rate review proceeding.

BH Nebraska Gas will defer collection of those revenues if the Commission issues an interlocutory order in this rate proceeding prior to September 1, 2020, a significant number of BH Nebraska Gas customers are unable to pay the increase, and the Nebraska economy is in a condition that would warrant deferral of collection of the interim rates commencing on September 1, 2020.

BH Nebraska Gas proposes that the Commission's interlocutory order approve the following authorizations: (1) the Company is permitted to recover the full lawful amount of revenue (i.e., with carrying costs) that BH Nebraska Gas would have collected and retained during the interim rate period, (2) the Company is allowed to recover the uncollected interim rates through a customer surcharge mechanism to be collected over a twelve-month period commencing with the effective date of final rates determined by the Commission in this rate review proceeding, (3) Parties to the proceeding agree to the collection, and (4) all Parties to the proceeding waive all rights of rehearing or appeal of the deferred collection of the lawful revenues recovered through the surcharge mechanism approved by the Commission's interlocutory order in this proceeding.

F. Witnesses

The table below lists the Company witnesses providing testimony in support of the BH Nebraska Gas Rate Review Application.

Witness List and Purpose of Testimony	
WITNESS	PURPOSE OF TESTIMONY
Robert J. Amdor Director, Regulatory & Finance	Application Overview, Case Drivers, Witness Introduction, Company Policy, Prior Proceeding Commitments, Employee Compensation, Cost of Capital. Interim Rates. and Covid-19 Pandemic
Jason L. Bennett Manager, Regulatory & Finance	Filing Requirements, Accounting. & Capital Spend, Contributions, Dues, and Lobbying, Farm Tap Replacement Program, SSIR Modifications, 2021 SSIR, ALLO Surcharge, Consolidation synergies, and Rate Review Expenses
Michael C. Clevinger Senior Manager, Regulatory & Finance	Revenue Requirement Study, CAMS, and Adjustments
Tyler E. Frost Manager, Regulatory & Finance	High Efficiency Appliance Tool, Low Income Customer Support, Changes in Fees, and Tariff Sheets
Douglas N. Hyatt Principal Analyst, Regulatory & Finance	Rate Design & Billing Determinants

Kevin M. Jarosz Vice President Nebraska Operations	Operations, Customer Service, Capital Spend, and Capital Infrastructure Investment Projects
Justin W. Klapperich Finance Director III, Tax	ADIT and Taxes
Marc I. Lewis Director, Gas Pipeline and System Integrity	Safety Investment & Risk Ranking
Adrien M. McKenzie FinCap	Return on Equity and Capital Structure
Dr. David Rosenbaum Rosenbaum Consulting	Customer Growth & HEAT Program
Thomas J. Sullivan Navillus Consulting	Class Cost of Service and Rate Design

G. Executive Summary Conclusion

For the reasons set forth below and supported by testimony, exhibits, schedules, and other evidence required by the Act and Commission Rules and Regulations, BH Nebraska Gas submits this Rate Review Application for general rate review, and respectfully requests that the Commission and Public Advocate approve the Rate Review Application after proper review, analysis, investigation, and hearing.

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
BLACK HILLS NEBRASKA GAS, LLC, D/B/A)	APPLICATION NO. NG -109
BLACK HILLS ENERGY, RAPID CITY, SOUTH)	
DAKOTA, SEEKING APPROVAL OF A)	
GENERAL RATE INCREASE)	

APPLICATION FOR RATE INCREASE

Comes now Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (“BH Nebraska Gas”), pursuant to the State Natural Gas Regulation Act, *66 Neb. Rev. Stat. § 66-1801 et seq.* (the “Act”) and the Rules and Regulations of the Nebraska Public Service Commission (“Commission”), Neb. Admin. Code, Title 291, Chapter 9 Pipeline Common Carriers Rules and Regulations (“Chapter 9”), for a consolidated request to change the rates for natural gas service provided to BH Nebraska Gas’ customers located within BH Nebraska Gas’ Rate Area One, Rate Area Two, Rate Area Three, and Rate Area Five.

In support of its Rate Review Application, BH Nebraska Gas states as follows:

I. Description of BH Nebraska Gas

A. **Peoples Natural Gas**. In 1985, UtiliCorp United, Inc., acquired the natural gas distribution assets of Peoples Natural Gas, division of InterNorth, Inc. At that time, regulation over rates, terms, and conditions of service was vested in each municipality in which it provided service. In 1987, Aquila divided its Nebraska service territory into new Rate Areas as required by the Municipal Natural Gas Regulation Act (“MNGRA”) Neb. Rev. Stats. § 19-4607, et seq. (2000). Peoples Natural Gas Nebraska Rate Areas One and Three separately addressed rate and tariff issues related to Aquila in two separate rate proceedings since adoption of the Act. These Rate Areas were approved by the Commission pursuant to its authority under the Act.

B. **Minnegasco**. As a result of Aquila’s acquisition of Minnegasco’s Nebraska properties in 1993, Aquila’s rate area boundaries were modified effective January 1, 1994. Ten Municipalities are currently located in BH Nebraska Gas’ Rate Area One.⁸ Rate Area One consists of approximately 43,103 customers. BH Nebraska Gas’s Rate Area Two consists of the City of Lincoln and the adjacent communities of Walton and Cheney, Nebraska. Rate Area Two consists of approximately 93,203 customers. Rate Area Three consists of ninety-five municipalities in eastern Nebraska. Each of these communities is as listed on Index No. 3 of BH Nebraska Gas’ Tariff on file with the Public Service Commission of Nebraska. Rate Area

⁸ Those 10 communities are Plattsmouth, Bellevue, Ralston, LaVista, Papillion, Gretna, Waterloo, Elkhorn, Valley, and Blair, Nebraska. See BH Nebraska Gas Tariff Sheet No. 20 for a list of communities under Rate Areas One, Two, and Three.

Three consists of approximately 59,421 customers. The Commission has addressed rate and tariff issues related to Aquila in two separate rate proceedings since adoption of the Act.⁹

C. **Black Hills Energy.** Effective July 14, 2008, the natural gas and electric assets of Aquila located in the states of Colorado, Iowa, Kansas, and Nebraska transferred to Black Hills Corporation. The Nebraska Public Service Commission granted approval of the transfer by Order dated October 16, 2007 in Commission Application No. NG-0044. The Commission also addressed rate and tariff issues related to BH Gas Utility and the Aquila acquisition in Commission Application No. NG-0061.

Black Hills Corporation established Black Hills/Nebraska Gas Utility Company, LLC (“BH Gas Utility”) as a separate legal entity for the natural gas assets located in Nebraska. BH Gas Utility conducted its business in Nebraska under the trade name of “Black Hills Energy.” BH Gas Utility provided retail gas service to approximately 200,000 gas customers in or around 106 communities located in the eastern one-third of the state.

D. **SourceGas Distribution.** In 2016, BHC, through its subsidiary, Black Hills Utility Holdings, Inc. (“BHUH”), expanded its jurisdictional utility operations in Nebraska with its acquisition of SourceGas Distribution LLC and Rocky Mountain Natural Gas LLC (“RMNG”). SourceGas Distribution LLC was a local distribution company providing retail gas sales and transportation services in Colorado, Nebraska, and Wyoming, and RMNG was an intrastate pipeline providing gas transportation and storage services in Colorado.

The Commission approved that acquisition (“SourceGas Acquisition”) by its order dated January 26, 2016 in Application No. NG-0084. Immediately following the SourceGas Acquisition, on February 13, 2016, BHUH changed the name of SourceGas Distribution LLC to Black Hills Gas Distribution, LLC. BH Gas Distribution provided retail gas service to approximately 88,000 customers in about 180 communities, located primarily in the western two-thirds of the state. Since the acquisition by BHUH, BH Gas Distribution also conducted its natural gas business activity under the “doing business as” name of Black Hills Energy. This general Rate Review Application will be the first rate review for former BH Gas Distribution since the SourceGas Acquisition in Commission Application No. NG-0084 and since the consolidation of BH Gas Utility into BH Nebraska Gas.

E. **BH Nebraska Gas.** As indicated above, BH Gas Utility was under BHUH’s corporate ownership and control since 2008, and BH Gas Distribution was under BHUH’s corporate ownership and control since 2016. Pursuant to Commission approval in Application No. NG-100, BH Gas Utility and BH Gas Distribution merged into and transferred all their respective Nebraska gas utility tariffs, assets, liabilities, and operations to a single entity renamed as BH Nebraska Gas. Accordingly, BH Nebraska Gas is the Jurisdictional Entity serving the areas previously served by BH Gas Utility and BH Gas Distribution under the Act. The existing jurisdictional services of BH Nebraska Gas are set forth in Commission-approved tariffs effective January 1, 2020 and are currently on file with the Commission.

⁹ *In Re Aquila, Inc. d/b/a Aquila Networks, Commission Application No. NG-0004 (2003)* and *In Re Aquila, Inc. d/b/a Aquila Networks, Commission Application No. NG-041 (July 24, 2007)*

F. BH Nebraska Gas has a net investment for its Test Year rate base in its Nebraska assets totaling approximately \$586 million. Black Hills Corporation has approximately 3000 employees for all its operations, and it employs 358 employees, who are located in Nebraska. BH Nebraska Gas' Nebraska operations rely on several other employees within BH Nebraska Gas' other multi-jurisdictional companies, who do not reside in Nebraska. As of December 31, 2019, BH Nebraska Gas provided retail natural gas distribution service to approximately 295,000 customers located in or around 319 communities in Nebraska.

F. This Rate Review Application seeks to set rates for the established rate areas on a consolidated basis. The rates established under the Rate Review Application will be uniform to all customers of BH Nebraska Gas in Nebraska.

II. Contents of Rate Review Application and Communication

A. Content of Rate Review Application

1. This BH Nebraska Gas Rate Review Application consists of several documents contained within Volumes 1 through 3. Those Volumes include all schedules, exhibits and direct testimony, tariffs, and workpapers required by the Act and the Commission Rules.¹⁰ BH Nebraska Gas provides a table of contents at the beginning of each volume listing and describing each of the Sections, Schedules, Studies contained in various Volume sections along with a cross reference of the witness(es) sponsoring each Schedule.

2. BH Nebraska Gas developed this Rate Review Application in accordance with the Act, the Commission's Natural Gas and Pipelines Rules and Regulations, Title 291, Chapter 9 of the Nebraska Administrative Code (the "Commission Rules"), Nebraska common law and generally accepted accounting and ratemaking principles.

3. The Rate Review Application contains the information required under the Commission's rate application rules and regulations. Those documents can be found under Application Exhibit No. 1 organized as follows:

- Application Exhibit No. 1, Section 1
 - Rule 004.02 (Section I – General Information)
- Application Exhibit No. 1, Section 2
 - Exhibit No. MCC-2 - Revenue Requirement Study
 - Rule 004.03 (Section II – Rate Base Schedules)
 - Rule 004.04 (Section III – Operating Expense Schedules)

¹⁰ The BH Nebraska Gas Revenue Requirement Study found in Exhibit No. MCC- 2 of Mr. Clevinger's testimony contains several different Tabs that provide schedules required by the Commission's Rate Review Application Rules. Mr. Clevinger provides an explanation of each tab. The rate design schedules are provided in Vol. 1, Section 3, and the Class Cost of Service Study is provided under Vol. 1, Section 4. Mr. Sullivan and Mr. Hyatt provide support for those Commission requirements.

- Rule 004.05 (Section IV – Rate of Return and Cost of Capital Schedules)
- Application Exhibit No. 1, Section 3
 - Rule 004.06 (Section V – Revenue Schedules)
- Application Exhibit No. 1, Section 4
 - 004.07 (Section VI – Class Cost of Service Study)
- Application Exhibit No. 1, Section 5
 - 004.08 (Section VII – Prefiled Direct Testimony and Exhibits)
- Application Exhibit No. 1, Section 6
 - Tariffs (clean and red-lined)
- Application Exhibit No. 1, Section 7
 - 004.01C (Workpapers)

The documents and schedules contained within Application Exhibit No. 1 and the associated electronic files from which the information was produced are incorporated into this Application by reference herein.

B. Communications.

Communications regarding this Rate Review Application should be addressed to the following:

Robert J. Amdor
 Director of Regulatory & Finance
 Black Hills Energy
 1731 Windhoek Avenue
 Lincoln, NE 68501
 (402) 221-2227
robert.amdor@blackhillscorp.com

Douglas J. Law
 Associate General Counsel
 Black Hills Energy
 1731 Windhoek Avenue
 Lincoln, NE 68501
 (402) 221-2635
douglas.law@blackhillscorp.com

Jason Bennett
 Manager Regulatory & Finance
 Black Hills Energy
 1731 Windhoek Avenue
 Lincoln, NE 68501
 (402) 858-3560
jason.bennett@blackhillscorp.com

Tyler Frost
 Manager Regulatory & Finance
 Black Hills Energy
 1731 Windhoek Avenue
 Lincoln, NE 68501
 (402) 858-3561
tyler.frost@blackhillscorp.com

Margaret McGill
Manager Regulatory & Finance
Black Hills Energy
1731 Windhoek Avenue
Lincoln, NE 68501
(402) 221-2251
margaret.mcgill@blackhillscorp.com

Jill Becker
Manager State Governmental Affairs
Black Hills Energy
1731 Windhoek Avenue
Lincoln, NE 68501
(402) 858-3551
jill.becker@blackhillscorp.com

Dari Dornan
Associate General Counsel
Black Hills Energy
1731 Windhoek Avenue
Lincoln, NE 68501
(402) 221-2288
dari.dornan@blackhillscorp.com

Adam Buhrman
Corporate Counsel
Black Hills Energy
1731 Windhoek Avenue
Lincoln, NE 68501
(402) 221-2630
adam.buhrman@blackhillscorp.com

Kevin Jarosz
Vice President – Nebraska Operations
Black Hills Energy
1731 Windhoek Avenue
Lincoln, NE 68501
(402) 857-3555
kevin.jarosz@blackhillscorp.com

Brandy Johnson
Regional Manager – External Affairs
Black Hills Energy
1731 Windhoek Avenue
Lincoln, NE 68501
(402) 858-3546
brandy.johnson@blackhillscorp.com

III. Background and Reason for General Rate Filing

A. BH Gas Utility has not had a general rate increase under Neb. Rev. Stat. § 66-1838 in Nebraska since 2009.¹¹ BH Gas Distribution’s last general rate under Neb. Rev. Stat. § 66-1838 was in 2011.¹² This Rate Review Application is the first general rate review for the consolidated BH Nebraska Gas. Thus, over the past decade, BH Gas Utility and BH Gas Distribution preserved existing base tariff rates by controlling costs and increasing revenues by investing in infrastructure improvements needed to maintain the safety and reliability of BH Nebraska Gas’ Nebraska gas distribution system. The Commission’s approval of Pipeline Replacement Charges under *Neb. Rev. Stats. §§ 66-1864 et seq.* and the BH Gas Distribution System Safety Infrastructure Rider (“SSIR”) mechanism helped BH Nebraska Gas delay a general rate review.

¹¹ Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy’s rate review proceeded under Commission Application No. NG – 0061.

¹² SourceGas Distribution, LLC’s rate review proceeded under Commission Application No. NG – 0067.

As set forth herein, several events have occurred to render BH Nebraska Gas' current rates inadequate and its revenue requirements deficient. The primary drivers determined by BH Nebraska Gas for filing a Rate Review Application seeking a rate review are as follows:

1. Capital Infrastructure Project Investment Recovery

BH Gas Utility and BH Gas Distribution each made significant capital investment in their gas distribution system infrastructure since the last Rate Review Applications for either BH Gas Utility or BH Gas Distribution ("Capital Infrastructure Projects"). In fact, BH Nebraska Gas has increased its rate base by approximately \$322 million since the last rate review proceedings for BH Gas Utility and BH Gas Distribution. Those Capital Infrastructure Projects investments were made to improve the respective gas distribution systems of BH Gas Utility or BH Gas Distribution. The combined rate base of BH Gas Utility and BH Gas Distribution at the end of the Base Year (i.e., 12/31/2019) is approximately \$526 million.

- A. Rolled-in Capital Investment.** A significant portion of the Capital Infrastructure Projects investment was made by either BH Gas Utility or BH Gas Distribution in system safety infrastructure (i.e., "Integrity" projects). That investment has been recovered through either a Pipeline Replacement Charge or an SSIR Charge.

On the other hand, significant investment in other Capital Infrastructure Projects (i.e., Growth, Reliability, or General Plant projects) has not yet been incorporated into tariff rates by BH Gas Utility or BH Gas Distribution.

All Capital Infrastructure Project investment will be included (i.e., rolled into Rate Base) into tariff rates through this Rate Review Application. The Rolled-in Capital Infrastructure investment is included in this Rate Review Application as Exhibit No. MCC-2, Statement D and Schedules D-1, D-2, and D-3 attached to the testimony of Mr. Clevinger.

- B. 2020 Capital Additions Investment.** BH Nebraska Gas will invest approximately \$102 million in Capital Additions during 2020. The rate base of BH Gas Utility will increase to \$586 million by the end of this rate review proceeding. BH Gas Utility and BH Gas Distribution invested in numerous Growth, Integrity, Reliability, and General Plant Capital Investment Projects. The 2020 Capital Additions are included in this Rate Review Application as Exhibit No. KMJ-4 attached to the testimony of Mr. Jarosz.
- C. 2021 SSIR Capital Investment.** In 2021, BH Nebraska Gas proposes to invest \$51 million in SSIR projects. The Application for the 2021 SSIR projects is included in this Rate Review Application as Exhibit No. JLB-5 attached to the testimony of Mr. Bennett.
- D. Five-Year Plan Capital Investment.** The Company plans to invest an additional \$455 million (i.e. approximately \$91 million average per/year) on Capital Infrastructure Projects over the next five years in BH Nebraska Gas. BH Nebraska

Gas will spend approximately \$50 million of the \$91 million per year on programmatic System Safety Integrity Rider (“SSIR”) projects.

The most important driver to this Rate Review Application for BH Nebraska Gas is:

- (a) Commission approval of the recovery of previously unrecovered gas system investment; and
- (b) Commission approval of the Company’s proposed rate mechanisms to improve the safety and reliability of its gas distribution system.

2. Pipeline Replacement Charge Renewal, System Safety Integrity Rider (“SSIR”) Renewal, Extension, and other SSIR Modifications

The Pipeline Replacement Charge and SSIR mechanisms are designed to (a) improve customer safety, (b) drive collaboration between the Commission, the Public Advocate and the Company, and (c) reduce regulatory lag. Recovery of required capital investment through a Pipeline Replacement Charge or SSIR Charge extends the time between Rate Review Applications.

Accordingly, another driver to this rate review proceeding is (a) the renewal of the system safety mechanisms (i.e., Pipeline Replacement Charge and SSIR Charge), (b) extension of the SSIR mechanism to all Rate Areas, (c) modification of the SSIR’s definition of eligible projects, categories, and criteria, (d) a change in the SSIR Surveillance Reports, and (e) modification of the SSIR mechanism to include recovery of Data Integrity Improvement Program (“DIIP”) costs through the SSIR Charge.

BH Nebraska Gas proposes that future investment in system integrity projects be approved and recovered similar to the established SSIR mechanism process used currently by BH Gas Distribution.¹³ BH Nebraska Gas also seeks to modify the current definition of eligible projects, SSIR Criteria and SSIR Categories to also include Reliability projects and Data Integrity Improvement Programs costs through the SSIR Charge. BH Nebraska Gas plans to continue making significant investment into the safety, resiliency, and reliability of its gas distribution system in Nebraska.

3. Public Power Competition and High Efficiency Appliance Tool (“HEAT”) Tariff

BH Nebraska Gas faces constant and seemingly increased competition from public power districts in Nebraska. As demonstrated in the testimony of Dr. Rosenbaum, Mr. Frost, and Mr. Sullivan, competition from Nebraska’s publicly owned power districts poses a significant threat to the operations of BH Nebraska Gas. Those competitive challenges come primarily in the form of low winter rates and electric appliance rebates.

¹³ The SSIR mechanism is in addition to the Pipeline Replacement Charge authorized by Neb. Rev. Stats. §§ 66-1864 through 66-1867.

Other competitive advantages for power districts come in the form of governmental protections, governmental immunities, lower tax burdens, different regulatory structures, and exclusive service areas.

BH Nebraska Gas needs to meet competition from Nebraska power districts in order to level the playing field and to provide its customers with valuable energy options. To that end, another driver of this rate review proceeding is that BH Nebraska gas proposes to (a) adopt a rate design that will fairly compete with the Nebraska power districts, and (b) continue the High Efficiency Appliance Tool program that currently exists in BH Nebraska Gas Rate Area Five.

Based on the research conducted by Dr. Rosenbaum, the Company further proposes to expand the HEAT Program to Rate Areas One through Three as well.

4. **Revenue Deficiency**

As a result of consolidation of BH Gas Utility and BH Gas Distribution, BH Nebraska Gas is experiencing a revenue deficiency of \$17,296,140 that will be addressed in this rate review proceeding. The Base Year for this Rate Review Application is January 1, 2019 through December 31, 2019. The Test Year adjusts the Base Year for known for known and measurable changes, as well as applying normalization adjustments, as required by the Act, and an annualized adjustment to correct for out-of-period billing entries. The Company is proposing to include in rate base capital projects that went into service after the end of the Base Year and through the end of 2020.

Revenue Deficiency	Capital Structure	ROE	Cost of Debt	Weighted Cost of Capital
\$17.3 million	50% Equity/50% Debt	10%	4.11%	7.06%

5. **Statewide Consolidated Rates**

This Rate Review Application covers BH Nebraska Gas Rate Areas One, Two, and Three (former BH Gas Utility rate areas), and Rate Area Five (former BH Gas Distribution rate area).¹⁴ BH Nebraska Gas's Nebraska customers are served by common interstate natural gas pipeline systems.¹⁵

¹⁴ Rate Area 4 is a designation of the Agricultural and High Volume non-jurisdictional transportation customers whose service is provided pursuant to Neb. Rev. Stat. § 66-1810. The rates, terms, and conditions of service for customers served under Rate Area 4 non-jurisdictional transportation customers are not subject to this filing other than allocation of costs between regulated and non-regulated customers. *See Tariff Sheet Nos. 20-27* for more detail regarding BH Nebraska Gas rate areas.

¹⁵ Northern Natural Gas Company (“NNG”) and Tallgrass Interstate Gas Transmission (“TIGT”) are primary interstate pipelines delivering interstate natural gas supplies to Black Hills Energy and its customers in Nebraska.

BH Nebraska Gas proposes uniform base rates for each customer class within the BH Nebraska Gas rate areas. As part of the statewide rate consolidation, BH Nebraska Gas proposes to either (a) raise the customer charges and establish block rates (a/k/a “Block Rate” rate design) or (b) increase its customer charge to cover all of its fixed costs (a/k/a “Straight-Fixed-Variable” rate design).

As explained in the testimony of Mr. Sullivan, the change in rate design is necessary to compete effectively with public power districts in Nebraska.

Although there is a difference in gas purchasing between Rate Areas One, Two, and Three (i.e., former BH Gas Utility Gas Cost Reconciliation mechanism) vs. Rate Area 5 (former BH Gas Distribution’s Choice Gas Program), BH Nebraska Gas incurs similar costs to serve its gas distribution customers in BH Nebraska Gas Rate Areas One, Two, Three, and Five.

Therefore, subject to the Commission's approval of the general rate increase requested in this Rate Review Application, BH Nebraska Gas revises its effective tariff rate schedules in accordance with the Act so that BH Nebraska Gas's approved base rates for natural gas service will be applied equally within each of the jurisdictional rate areas. The proposed rate design is set forth below.

6. Covid-19 Pandemic

The global Covid-19 Pandemic (“Pandemic”) caused numerous devastating impacts to the health and well-being of people throughout the world. The public health and economy of Nebraska was also impacted significantly by this Pandemic. BH Nebraska Gas provides energy within 319 communities in Nebraska and is considered an essential service during the Pandemic. BH Nebraska Gas is sensitive to the health, unemployment and other impacts caused by the recent pandemic. The Pandemic had several impacts on the customer safety and service provided by the Company. One of the many actions that BH Nebraska Gas took in response to managing its business operations during this Pandemic was to prudently balance the impact on customers as a result of filing this Rate Review Application with the financial stability of the BH Nebraska Gas.

Mr. Jarosz provides testimony on actions that the Company undertook in the interest of its customer safety, employee safety, and to help customers with financial impacts resulting from the Pandemic. One of the actions taken by BH Nebraska Gas was to delay filing the Rate Review Application from May to June.

7. Other Traditional Rate Review Issues

In addition to the primary rate review drivers identified above, BH Nebraska Gas provides testimony and evidence in support of its Rate Review Application, tariffs, and other items that are within a general rate review. For example, as supported by the Direct Testimony of Mr. Frost, BH Nebraska Gas proposes tariff changes to establish uniform fees or charges for diversion of gas fees, late payment fees, connect, reconnect, credit card processing fees, and NSF charges. Those fees and charges are not currently standardized. Mr. Clevinger provides the

Revenue Requirement Study used to determine the revenue deficiency in this case. Mr. Sullivan provides the Cost Allocation Manual currently used by BHSC for allocating costs to BH Nebraska Gas, and for designing rates. Mr. Klapperich discusses tax methodologies applied in the Rate Review Application. The areas of testimony for each witness is summarized in the table of witnesses below.

A. Gas Supply and Choice Gas Programs

BH Nebraska Gas does not propose to change its Choice Gas Program for Rate Area Five (former BH Gas Distribution) customers where Rate Area Five customers choose their natural gas commodity supplier. In addition, other than moving “Gas In Storage” costs into the Gas Cost Adjustment (“GCA”) mechanism as discussed in the testimony of Mr. Bennett, BH Nebraska Gas does not propose changes to the Gas Cost Adjustment mechanism used in its Rate Areas One, Two, and Three (former BH Gas Utility) where Residential and Commercial Sales customers in those Rate Areas are provided natural gas supply purchased by BH Nebraska Gas. Any significant changes to either the Choice Gas Program or the GCA (i.e., other than proposed in this Rate Review Application) will be addressed in a separate Commission proceeding.

B. Compliance with Prior Orders

In preparing this Rate Review Application, BH Nebraska Gas reviewed several prior Orders of the Commission wherein the Commission ordered BH Nebraska Gas to address a particular issue in this proceeding.

For example, BH Nebraska gas includes a Transition Report (“Synergies Savings”) related to the SourceGas Distribution acquisition in Commission Application No. NG-0084. BH Nebraska Gas addresses its proposal to include in its costs unrecovered prudently incurred BH Nebraska Gas Farm Tap Replacement Program costs justified in Commission Application No. NG-0090.2. BH Nebraska Gas discusses the ALLO Project costs included in a regulatory accounting order and deferred to this Rate Review Application for recovery of those costs through a surcharge set forth in Commission Application No. NG-0093.

BH Nebraska Gas also addresses Accumulated Deferred Taxes that were deferred to this rate proceeding under the Company’s Tax Cut and Jobs Act filing in Commission Application No. NG-0095.2. BH Nebraska Gas addresses the issues acknowledged in its legal entity and tariff consolidation proceeding in Commission Application No. NG-100. BH Nebraska Gas also reviewed the prior rate review proceedings of BH Nebraska Gas in Application No. NG-0061 (2009) and SourceGas in Application No. NG-0067 (2011) to ensure full compliance with those or other Commission orders.

IV. Authority and Request for Increase in Rates

A. Under the governing laws of the United States, Nebraska law and United States Supreme Court precedent, BH Nebraska Gas is entitled to a fair and reasonable return on its property required for service to its customers. In determining rates pursuant to the Act, the Nebraska Public Service Commission must “give due consideration to the public need for adequate, efficient, and reasonable natural gas service and to the need of the utility for revenue

sufficient to enable it to meet the cost of furnishing the service, including adequate provisions for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property.” See e.g., 66-1825 Neb. Rev. Stat. § 66-1825. See also, *Bluefield Waterworks and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944). The currently approved tariff rates of BH Nebraska Gas, if continued in effect, would not meet the standard established under Nebraska law and would result in the confiscation of the property of BH Nebraska Gas without due process of law in violation of the Fourteenth Amendment of the Constitution of the United States and of Article I, Section 3 of the Constitution of the State of Nebraska. BH Nebraska Gas is suffering and will continue to suffer irreparable injury so long as the existing rates continue in effect. If the Commission grants this Application, BH Nebraska Gas will have an opportunity to earn an overall return on its rate base of 7.06% and a return on common equity of 10%.

BH Nebraska Gas’ proposed rate increase is consistent with Section 66-1825(3) of the Act, which requires the Commission to "give due consideration to the public need for adequate, efficient, and reasonable natural gas service and to the need of the jurisdictional utility for revenue sufficient to enable it to meet the cost of furnishing the service, including adequate provisions for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property."

V. Rate Structure and Effectiveness

A. **Rate Design.** BH Nebraska Gas therefore requests that the Commission adopt the new rates contained in the proposed rate schedules included herewith and by reference made a part hereof. Specifically, the proposed rate schedules (i.e., Block Rate Design) provide for a Customer Charge of \$15.45 per month for Residential customers and \$31.10 per month for Commercial customers.

In addition to the monthly customer charge, residential customers will pay \$0.59960, for the first 20 therms used in each month’s billing cycle, and \$0.1500 for each additional therm used in that month’s billing cycle. This charge is in addition to the cost of gas purchased and recovered under BH Nebraska Gas’ Gas Cost Adjustment mechanism, through the Supplier Gas Costs recovered in the Choice Gas Program, or other charges approved by the Commission.

Commercial customers will pay \$0.59960, for the first 40 therms used in each month’s billing cycle, and \$0.1500 for each additional therm used in that month’s billing cycle. This cost is in addition to the cost of gas purchased and recovered under BH Nebraska Gas’ Gas Cost Adjustment mechanism, through the Supplier Gas Costs recovered in the Choice Gas Program, or other charges approved by the Commission.

The Alternate (i.e., Straight Fixed Variable) rate designed proposed by the Company provides for a Residential Customer Charge of \$22.81 per month and a Commercial Customer Charge of \$43.65. The Volumetric Charge for both Residential and Commercial Customers would be \$.1500/Therm.

B. **Rate Design Justification.** BH Nebraska Gas has designed its proposed rates to accomplish the following results:

- (1) standardization of rates between all jurisdictional rate areas;
- (2) simplicity;
- (3) fair apportionment of costs among various customer sizes;
- (4) an opportunity for BH Nebraska Gas to set rates which are reflective of its current cost structure and business conditions;
- (5) an opportunity to add stability to BH Nebraska Gas's rate structure; and
- (6) to allow BH Nebraska Gas to meet competition from other energy providers.

B. Specifically, BH Nebraska Gas proposes the following rate design:

BH Nebraska Gas Recommended Rate Design
(Block Rates)

	BH Gas Utility Current	BH Gas Distribution Current	BH Nebraska Gas Proposed
Residential Customer Charge	\$13.50 per Month	\$14.70 per Month	\$15.45 per Month
Commercial Customer Charge	\$18.50 per Month	\$22.75 per Month	\$31.10 per Month
Large Commercial Customer Charge	NA	\$56.15 per Month	N/A
Residential Distribution Charge Tier 1	\$.19500/Therm	\$.04675/Therm First 20 Therms	\$.59960/Therm First 20 Therms
Residential Distribution Charge Tier 2	N/A	\$.1338/Therm Over 20 Therms	\$.1500/Therm Over 20 Therms
Small Commercial Distribution Charge Tier 1	\$.17245/Therm	\$.4675/Therm First 40 Therms	\$.59960 /Therm First 40 Therms

Small Commercial Distribution Charge Tier 2	N/A	\$.1338 Therms Over 40 Therms	\$.1500/Therm Over 40 Therms
Large Commercial Distribution Charge Tier 1	N/A	\$.4675/Therm First 80 Therms	N/A
Large Commercial Distribution Charge Tier 2	N/A	\$.4675/Therm Over 80 Therms	N/A

BH Nebraska Gas Alternate Rate Design
(Straight Fixed Variable)

	Alternate Customer Charge	Alternate Volumetric Charge
Residential	\$22.81 per Month	\$.1500/Therm
Commercial	\$43.65 per Month	\$.1500/Therm

Average Residential Customer Bill Impacts

BH Gas Utility Residential Winter	BH Gas Distribution Residential Winter	BH Gas Utility Residential Summer	BH Gas Distribution Residential Summer
\$5.61/mo. increase	\$.66/mo. increase	\$9.26/mo. increase	\$0.65/mo. decrease
7%/mo. Higher	1% Higher	33%/mo. Higher	2% Lower

Average Small Commercial Customer Bill Impacts

BH Gas Utility Small Commercial Winter	BH Gas Distribution Small Commercial Winter	BH Gas Utility Small Commercial Summer	BH Gas Distribution Small Commercial Summer
\$15.89/mo. increase	\$14.21/mo. increase	\$25.56/mo. increase	\$7.23/mo. increase
4%/mo. Higher	4% Higher	23%/mo. Higher	6% Higher

Average Large Commercial Customer Bill Impacts

BH Gas Utility Large Commercial Winter	BH Gas Distribution Large Commercial Winter	BH Gas Utility Large Commercial Summer	BH Gas Distribution Large Commercial Summer
\$(33.37)/mo. decrease	\$(42.77)/mo. decrease	\$8.95/mo. increase	\$(73.31)/mo. decrease
2%/mo. Lower	3% Lower	2%/mo. Higher	12% Lower

C. Interim Rates.

BH Nebraska Gas requests that the rates shown in the proposed rate schedules be made effective after Commission approval in accordance with the provisions of the Act. *See Neb. Rev. Stat. § 66-1838 (2003)*. By law, BH Nebraska Gas may collect those rates as interim rates, subject to refund, ninety (90) countable days after the date of filing for the increase. Neb. Rev. Stat. § 66-1838 (10)(b). BH Nebraska Gas intends to collect 100% of its proposed rates under the interim rate statute, subject to refund, commencing on or about September 1, 2020.

As detailed in the testimony of Mr. Amdor, BH Nebraska Gas will implement interim rates, subject to refund, commencing on September 1, 2020. However, the Company will consider shielding customers from the impacts of the rate increase during the pendency of this case if the Covid-19 Pandemic severely impacts the majority of BH Nebraska Gas customers. To that end, BH Nebraska Gas hereby requests Commission approval, in the Company's sole discretion, to elect to defer collection of the incremental revenues it could lawfully collect during the interim rate period until the end of the rate review proceeding.

BH Nebraska Gas would only defer collection of those revenues if the Commission issues an interlocutory order in this rate proceeding prior to September 1, 2020, a significant number of BH Nebraska Gas customers are unable to pay the increase, and the Nebraska economy is in a condition that would warrant deferral of collection of the interim rates commencing on September 1, 2020.

BH Nebraska Gas proposes that the Commission's interlocutory order approve the following authorizations: (1) the Company is permitted to recover the full lawful amount of revenue (i.e., with carrying costs) that BH Nebraska Gas would have collected and retained during the interim rate period, (2) the Company is allowed to recover the uncollected interim rates through a customer surcharge mechanism to be collected over a twelve-month period commencing with the effective date of final rates determined by the Commission in this rate review proceeding, (3) Parties to the proceeding agree to the collection, and (4) all Parties to the proceeding waive all rights of rehearing or appeal of the deferred collection of the lawful revenues recovered through the surcharge mechanism approved by the Commission's interlocutory order in this proceeding.

BH Nebraska Gas attaches its Motion to Implement An Interim Rate Surcharge as Exhibit 2 of this Rate Application.

VII. Testimony in Support of Filing

BH Nebraska Gas' direct testimony in support of its General Rate Filing is filed herewith. The testimony of the witnesses supporting BH Nebraska Gas' General Rate filing is identified below. Among other things, the testimony explains in detail the form of rate design, rate recovery mechanisms, and other items accompanying BH Nebraska Gas' request herein.

BH Nebraska Gas requests that the Commission grant the proposals and requests as explained and supported by each of the BH Nebraska Gas witnesses identified below. Those requests include, but are not limited to, (a) expansion of the HEAT to Rate Areas One, Two, and Three, (b) SSIR modifications and extension to Rate Areas One, Two, and Three, (c) proposed rate increase, consolidation, and rate design, and (d) all the other proposals and requests set forth in testimony.

The table below lists the Company witnesses providing testimony in support of the BH Nebraska Gas Rate Review Application.

COMPANY WITNESS	PURPOSE OF TESTIMONY
Robert J. Amdor Director, Regulatory & Finance	Application Overview, Case Drivers, Witness Introduction, Company Policy, Prior Proceeding Commitments, Employee Compensation, Cost of Capital. Interim Rates. and Covid-19 Pandemic
Jason L. Bennett Manager, Regulatory & Finance	Filing Requirements, Accounting. & Capital Spend, Contributions, Dues, and Lobbying, Farm Tap Replacement Program, SSIR Modifications, 2021 SSIR, ALLO Surcharge, Consolidation synergies, and Rate Review Expenses
Michael C. Clevinger Senior Manager, Regulatory & Finance	Revenue Requirement Study, CAMS, and Adjustments
Tyler E. Frost Manager, Regulatory & Finance	High Efficiency Appliance Tool, Low Income Customer Support, Changes in Fees, and Tariff Sheets
Douglas N. Hyatt Principal Analyst, Regulatory & Finance	Rate Design & Billing Determinants
Kevin M. Jarosz Vice President Nebraska Operations	Operations, Customer Service, Capital Spend, and Capital Infrastructure Investment Projects
Justin W. Klapperich Finance Director III, Tax	ADIT and Taxes
Mark I. Lewis Director, Gas Pipeline and System Integrity	Safety Investment & Risk Ranking

EXPERT WITNESS	PURPOSE OF TESTIMONY
Adrien M. McKenzie FinCap	Return on Equity and Capital Structure
Dr. David Rosenbaum Rosenbaum Consulting	Customer Growth & HEAT Program
Thomas J. Sullivan Navillus Consulting	Class Cost of Service and Rate Design

VIII. Protective Order

Pursuant to Section 66-1829 of the Act and Commission Rule 006.01, BH Nebraska Gas is filing contemporaneously with this Rate Review Application a Motion for Protective Order regarding certain confidential and/or proprietary information that is being, and over the course of this proceeding may be, produced in connection with this case. *See Neb. Admin. Code, Title 291, Chapter 9, Rules 006.01 and 006.02.*

IX. Municipal Negotiation and Notices of Intent to Proceed Before Commission

In accordance with Subsection (3) of section 66-1838 of the Act, BH Nebraska Gas hereby provides the notice required by the Act that it elects to forego its right to negotiate directly with the Municipalities located within its consolidated Rate Areas, and instead desires to proceed with the review and approval of its Rate Review Application by the Commission.

X. Tariff Changes and Supporting Documentation

In support of this Rate Review Application, and as provided in section 66-1838 of the Act, BH Nebraska Gas submits herewith the proposed revision to its Tariff to implement its proposed rate increases and other changes. BH Nebraska Gas requests Commission approval of its proposed tariffs to become effective at the conclusion of this proceeding.

XI. Request for Necessary Waivers

While BH Nebraska Gas believes this Rate Review Application to be in full accord with applicable law, BH Nebraska Gas respectfully requests the granting of such waivers as necessary for the acceptance and approval of this Rate Review Application.

XII. Cost Allocation Manual

Subject to Commission Rule 004.04G, BH Nebraska Gas requests that the Commission approve the Cost Allocation Manual between BH Nebraska Gas and BHSC provided as Application Exhibit No. 1, Section 2, Exhibit F.

XIII. Agricultural, Interruptible, and High-Volume Customer Rates

BH Nebraska Gas is not proposing in this Rate Review Application to adjust rates for its Agricultural, Interruptible, or High-Volume customers in Nebraska. The rate setting process for such customers is governed by Neb. Rev. Stats. §§ 66-1810 (1) and (2) of the Act.

In addition, BH Nebraska Gas is not seeking authority to implement unique revenue decoupling rate recovery mechanisms (e.g., weather normalization adjustment (WNA) or limited cost recovery adjustment mechanisms), that provide for ongoing monthly rate adjustments. These types of revenue decoupling rate mechanisms, while beneficial, are not part of this rate application.

XIV. Rate Case and Other Surcharges

Pursuant to § 66-1841 of the Act, BH Nebraska Gas hereby requests continuing authority to collect its regulatory costs, including the Commission's assessment through a surcharge mechanism.

Specifically, BH Nebraska Gas requests Commission approval to implement the customer surcharges or recover amortized amounts set forth in the tariff or revenue requirement:

Commission Proceeding	Surcharge Name	Amortization or Surcharge Amount	Length of Surcharge
NG-0084	Severance	\$850,705	48 months
NG-0093	Line Location Costs	\$0.43	36 months
NG-0095	Tax Cut Jobs Act	\$15.59 Credit	One Time
NG-109	Rate Review Expense	\$.072	36 months
NG-109	Interim Rate Surcharge	TBD	12 months
NG-109	HEAT	\$0.09	Continuing monthly
NG-109	2021 SSIR Charge	\$0.6505 Residential \$1.2995 Commercial	Continuing monthly
NG-109	Gas in Storage Through Rate Areas One, Two and Three GCA	Varies	Continuing monthly

XV. Notice of Foregoing Negotiation with Affected Cities

Pursuant to Section 66-1838(3) of the Act, BH Nebraska Gas herewith provides notice that it will forego the negotiation process described in Section 66-1838(2) of the Act and will proceed directly with the Commission's review and approval of this Rate Review Application.

XVI. Conclusion

WHEREFORE, BH Nebraska Gas requests that the Commission issue an order accepting and approving this Rate Review Application, including the proposed rate schedules, tariff modifications, surcharges, fees, and other tariff changes included herewith, including but not limited to the following:

- proposed annual natural gas rate increase, based upon the Test Year ended December 31, 2019, as adjusted for known and measurable changes, in the amount of approximately \$17,296,140 as shown in Application Exhibit No. 1, Section 1, Exhibit B;
- proposed class cost of service study results and rate design set forth in the Rate Review Application and discussed in the direct testimony of various BH Nebraska Gas witnesses;
- proposed SSIR mechanism tariff and process modifications discussed in the direct testimony of various BH Nebraska Gas witnesses;
- proposed continuation and expansion of the HEAT program;
- proposed recovery of deferred accounting order amounts and recovery of other costs through various surcharges, riders, or rate mechanisms proposed in the Direct Testimony of various BH Nebraska Gas witnesses; and
- proposed recovery of Gas In Storage Inventory through the Gas Cost Adjustment mechanism for Rate Areas One, Two and Three as explained in the testimony of Mr. Bennett.

BH Nebraska Gas respectfully requests that the rates set forth in the attached revised Tariff sheets submitted with this Rate Review Application be made effective after Commission approval pursuant to the Act.

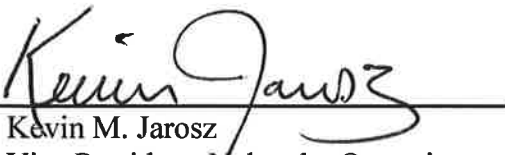
Pursuant to Neb. Rev. Stat. § 66-1838(10)(a), BH Nebraska Gas intends to collect the proposed rates as interim rates, subject to refund, beginning ninety (90) days after this filing unless BH elects to defer collection until Final Rates are effective. BH Nebraska Gas will only defer collection of the incremental Interim Rate revenues through the pendency of the rate proceeding if collection of an Interim Rate Surcharge is approved by the Commission as set forth in the Company's "Motion To Defer Collection and For an Interim Rate Surcharge" explained and supported within the Testimony of Mr. Amdor.

BH Nebraska Gas further requests that the Commission grant such other and further waivers or relief as the Commission deems just and reasonable.

BH Nebraska Gas further requests that the Commission grant such other and further waivers or relief as the Commission deems just and reasonable.

Respectfully submitted,

**BLACK HILLS NEBRASKA GAS, LLC
D/B/A BLACK HILLS ENERGY**

By: 
Kevin M. Jarosz
Vice President, Nebraska Operations

and

/s/ Douglas J. Law
Douglas J. Law #19436
Associate General Counsel
Black Hills Energy
1731 Windhoek Avenue
Lincoln, NE 68501
(402) 221-2635
douglas.law@blackhillscorp.com

**ATTORNEY FOR BH NEBRASKA GAS
D/B/A BLACK HILLS ENERGY**

VERIFICATION

STATE OF NEBRASKA)
) ss.
COUNTY OF DOUGLAS)

Kevin M. Jarosz, of lawful age, being first duly sworn, deposes and says that he is the Vice President of Nebraska Operations, Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy, that he has read the foregoing Rate Review Application, knows the contents thereof, and that the statements and allegations therein contained, including the information provided herewith pursuant to the State Natural Gas Regulation Act, are true to the best of his information, knowledge, and belief.


Kevin M. Jarosz

SUBSCRIBED AND SWORN TO before me this 27th day of May, 2020.



Notary Public

